Redemption of Debentures

1. Show by means of journal entries how will you record the following issues. Also,
show how they will appear in the respective balance sheets:
(a) A Ltd. Issues 10,000, 16% debentures of Rs.100 each at a discount of 5% redeemable at the end of 6 years at par.
(b) B Ltd. Issues 10,000, 14% debentures of Rs.100 each at a discount of 5% redeemable at the end of 5 years at a premium of 5%
(c) C Ltd. Issues 10,000, 15% debentures of Rs.100 each at par, redeemable at the end of 5 years at a premium of 5%

2. On 1st January, 2015, a company made an issue if 5000, 5% debentures of Rs.100 each at Rs.94 per debenture. The terms of issue provided for redemption of Rs.20000 debentures every year commencing from 2016 either by purchase or by drawing at par at the company's option. The debenture discount was written-off in 2015 and 2016 at Rs.5000 per year. During the year 2016, the company purchased for cancellation of debenture of the face value of Rs.6000 at Rs.94 per debenture and Rs14000 at Rs.92 per debenture. Pass journal entries for recording issue and redemption.

3. Sure Ltd. made an issue of 1000, 6% debentures of Rs.1000 each on 1.1.2014 at the issue price of Rs.960. The terms of issue provided that beginning with 2016, Rs.40000 debentures should be redeemed either by purchase in the market or by a lot at par. The expense of issue amounted to Rs.8000 which were written-off in 2014. In 2015 and 2016, the discount on issue of debentures was written-off equally.

   In 2016, the company purchased Rs.12000 debentures at Rs.940 cum-interest on 30th September and Rs.20000 debentures at Rs.950 ex-interest on 30th November, the expenses being Rs.800. On 31st December the debentures necessarily to be redeemed were paid-off at par by drawings by lot. Assuming the interest is payable on 30th June and 31st December, make journal entries to record the above transactions.

4. On 1st January, 2015, Metal Products Ltd. Issued debentures for Rs.100000 redeemable at par at the end of five years and it was resolved that a sinking fund should be formed and invested in tax-free securities.

   Show the ledger accounts for five years, assuming that the interest received on the investments was at the rate of 5% on cost, that the interest was received yearly and immediately invested and that the investments were realized at a loss of Rs.300 at the end of five years.

   Reference to the table shows that Re.0.180975 invested at the end of each year at 5% compound interest will produce Re.1 at the end of five years.